

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Metamora	County Lapeer
Fiscal Year End 03/31/2007	Opinion Date 08/06/2007	Date Audit Report Submitted to State 09/17/2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).



Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☒ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Hyzer, Hill, Kuzak & Co., P.C.		Telephone Number 989/269-9541	
Street Address 1242 Sand Beach Road		City Bad Axe	State MI
		Zip 48413	
Authorizing CPA Signature 		Printed Name Donald P. Kuzak	License Number 1101007059

VILLAGE OF METAMORA
LAPEER COUNTY, MICHIGAN

FINANCIAL REPORT
YEAR ENDED MARCH 31, 2007

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INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Metamora, Michigan

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Village of Metamora, Michigan, as of and for the year ended March 31, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Metamora's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of the Village of Metamora as of March 31, 2007, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Metamora's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Hyman, Hill, Kuzak & Co. P.C.

August 6, 2007

BASIC FINANCIAL STATEMENTS

Statement of Net Assets
March 31, 2007

	Primary Government		
	Governmental Activities	Business Type Activities	Total
Assets			
Cash and cash equivalents, unrestricted	\$ 1,600,749	\$ 159,369	\$ 1,760,118
Cash and cash equivalents, restricted	-	192,467	192,467
Receivables, unrestricted - net of allowance	-	11,116	11,116
Receivables, restricted - net of allowance	-	7,635	7,635
Due from other governments	25,476	-	25,476
Long-term contract, restricted	-	57,019	57,019
Internal balances	114,536	(114,536)	-
Unamortized bond costs	-	14,149	14,149
Capital assets, net	337,859	3,555,289	3,893,148
Total assets	\$ 2,078,620	\$ 3,882,508	\$ 5,961,128
Liabilities			
Accounts payable	\$ 10,975	\$ 4,733	\$ 15,708
Accrued payroll and liabilities	2,041	-	2,041
Accrued interest	-	10,100	10,100
Noncurrent liabilities:			
Revenue bonds due within one year	-	17,000	17,000
Revenue bonds due in more than one year	-	468,000	468,000
Total liabilities	13,016	499,833	512,849
Net Assets			
Investment in capital assets, net	337,859	3,070,289	3,408,148
Restricted:			
Streets and local roads	112,396	-	112,396
Debt service	-	243,021	243,021
Unrestricted	1,615,349	69,365	1,684,714
Total net assets	\$ 2,065,604	\$ 3,382,675	\$ 5,448,279

Village of Metamora, Michigan

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental activities:			
General government	\$ 85,242	\$ -	\$ -
Public works	69,585	-	40,785
Total governmental activities	154,827	-	40,785
Business type activities:			
Water and sewer	219,057	171,409	-
Interest on long-term debt	22,894	-	-
Total business type activities	241,951	171,409	-
Total primary government	\$ 396,778	\$ 171,409	\$ 40,785

General revenue:
Property taxes
State sources
Unrestricted investment income
Miscellaneous revenue

Total general revenue

Change in net assets

Net assets, beginning of year

Net assets, end of year

The notes to financial statements are an integral part of this statement.

Statement of Activities
For the Year Ended March 31, 2007

Net (Expense) Revenue and Change in Net Assets		
Primary Government		
Governmental Activities	Business Type Activities	Total
\$ (85,242)	\$ -	\$ (85,242)
(28,800)	-	(28,800)
(114,042)	-	(114,042)
-	(47,648)	(47,648)
-	(22,894)	(22,894)
-	(70,542)	(70,542)
(114,042)	(70,542)	(184,584)
328,238	-	328,238
39,479	-	39,479
63,654	18,354	82,008
18,357	-	18,357
449,728	18,354	468,082
335,686	(52,188)	283,498
1,729,918	3,434,863	5,164,781
<u>\$ 2,065,604</u>	<u>\$ 3,382,675</u>	<u>\$ 5,448,279</u>

The notes to financial statements are an integral part of this statement.

Village of Metamora, Michigan
**Governmental Funds
Balance Sheet
March 31, 2007**

	Major Funds				
	General	Major Street	Local Street	Downtown Development Authority	Total Governmental Funds
Assets					
Assets					
Cash and cash equivalents	\$ 304,201	\$ 46,541	\$ 60,557	\$1,189,450	\$ 1,600,749
Receivables:					
Other governmental units	6,303	5,724	1,574	11,875	25,476
Due from other funds	11,552	-	-	104,536	116,088
Total assets	\$ 322,056	\$ 52,265	\$ 62,131	\$1,305,861	\$ 1,742,313
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 8,975	\$ 1,250	\$ 750	\$ -	\$ 10,975
Accrued payroll and liabilities	2,041	-	-	-	2,041
Due to other funds	-	-	-	1,552	1,552
Total liabilities	11,016	1,250	750	1,552	14,568
Fund Balances					
Unreserved	311,040	51,015	61,381	1,304,309	1,727,745
Total liabilities and fund balances	\$ 322,056	\$ 52,265	\$ 62,131	\$1,305,861	\$ 1,742,313

The notes to financial statements are an integral part of this statement.

Village of Metamora, Michigan

**Reconciliation of Fund Balance on the Balance Sheet for
Governmental Funds to Net Assets of Governmental Activities
on the Statement of Net Assets
March 31, 2007**

Total fund balances, governmental funds \$ 1,727,745

Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds.

Capital assets	430,398	
Accumulated depreciation	<u>(92,539)</u>	<u>337,859</u>

Net assets, governmental activities \$ 2,065,604

Governmental Funds
Statement of Revenue, Expenditures, and Changes in Fund Balances
For the Year Ended March 31, 2007

	Major Funds				
	General	Major Street	Local Street	Downtown Development Authority	Total Governmental Funds
Revenue					
Property taxes	\$ 218,071	\$ -	\$ -	\$ 110,167	\$ 328,238
Licenses and permits	1,885	-	-	-	1,885
State sources	39,479	31,989	8,796	-	80,264
Charges for services	5,000	-	-	-	5,000
Interest income	13,979	1,659	2,609	45,407	63,654
Rental income	14,469	-	-	-	14,469
Miscellaneous	2,003	-	-	-	2,003
Total revenue	294,886	33,648	11,405	155,574	495,513
Expenditures					
General government	151,754	-	-	4,364	156,118
Public works	37,937	16,760	9,732	-	64,429
Total expenditures	189,691	16,760	9,732	4,364	220,547
Excess of revenue over expenditures	105,195	16,888	1,673	151,210	274,966
Other Financing Sources (Uses)					
Transfers in	50,450	-	-	106,251	156,701
Transfers out	(106,251)	-	-	(50,450)	(156,701)
Total other financing sources (uses)	(55,801)	-	-	55,801	-
Excess of revenue and other financing sources over expenditures and other financing uses	49,394	16,888	1,673	207,011	274,966
Fund balances, beginning of year	261,646	34,127	59,708	1,097,298	1,452,779
Fund balances, end of year	\$ 311,040	\$ 51,015	\$ 61,381	\$ 1,304,309	\$ 1,727,745

The notes to financial statements are an integral part of this statement.

**Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended March 31, 2007**

Net change in fund balances, governmental funds	\$ 274,966
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	74,595	
Depreciation expense	<u>(13,875)</u>	<u>60,720</u>
Change in net assets, governmental activities		<u>\$ 335,686</u>

Village of Metamora, Michigan
**Proprietary Funds
Statement of Net Assets
March 31, 2007**

	Business Type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 106,293	\$ 53,076	\$ 159,369
Accounts receivable	5,801	5,315	\$ 11,116
Total current assets	112,094	58,391	170,485
Noncurrent assets:			
Restricted for debt retirement:			
Cash and cash equivalents	192,467	-	192,467
Long-term contracts	57,019	-	57,019
Accounts receivable	7,635	-	7,635
Total restricted for debt retirement	257,121	-	257,121
Capital assets, net	2,417,988	1,137,301	3,555,289
Unamortized bond costs	14,149	-	14,149
Total noncurrent assets	2,689,258	1,137,301	3,826,559
Total assets	<u>\$ 2,801,352</u>	<u>\$ 1,195,692</u>	<u>3,997,044</u>
Liabilities			
Current liabilities:			
Accounts payable	\$ 2,445	\$ 2,288	\$ 4,733
Accrued interest	10,100	-	10,100
Due to other funds	8,000	2,000	10,000
Revenue bonds payable, due within one year	17,000	-	17,000
Total current liabilities	37,545	4,288	41,833
Long-term liabilities:			
Advance from component units	-	104,536	104,536
Long-term debt, net of current portion	468,000	-	468,000
Total long-term liabilities	468,000	104,536	572,536
Total liabilities	505,545	108,824	614,369
Net Assets			
Investment in capital assets, net	1,932,988	1,137,301	3,070,289
Restricted for debt	243,021	-	243,021
Unrestricted	119,798	(50,433)	69,365
Total net assets	<u>\$ 2,295,807</u>	<u>\$ 1,086,868</u>	<u>\$ 3,382,675</u>

The notes to financial statements are an integral part of this statement.

Proprietary Funds
Statement of Revenue, Expenses, and Changes in Net Assets
Year Ended March 31, 2007

	Business Type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total
Operating Revenue			
Sale of water	\$ -	\$ 52,020	\$ 52,020
Sewage disposal charges	49,173	-	49,173
Debt service usage charges	70,216	-	70,216
Total operating revenue	119,389	52,020	171,409
Operating Expenses			
Contracted services	33,350	31,539	64,889
Repairs	-	8,218	8,218
Supplies	2,623	1,142	3,765
Utilities	4,691	6,409	11,100
Administration	6,462	2,592	9,054
Depreciation	73,078	48,953	122,031
Total operating expenses	120,204	98,853	219,057
Operating loss	(815)	(46,833)	(47,648)
Nonoperating Revenue (Expense)			
Investment income	17,689	665	18,354
Interest expense	(22,894)	-	(22,894)
Total nonoperating revenue (expense)	(5,205)	665	(4,540)
Change in net assets	(6,020)	(46,168)	(52,188)
Net assets, beginning of year	2,301,827	1,133,036	3,434,863
Net assets, end of year	<u>\$ 2,295,807</u>	<u>\$ 1,086,868</u>	<u>\$ 3,382,675</u>

The notes to financial statements are an integral part of this statement.

Proprietary Funds
Statement of Cash Flows
March 31, 2007

	Business Type Activities - Enterprise Funds		
	Sewer Fund	Water Fund	Total
Cash flows from operating activities:			
Receipts from customers	\$ 127,077	\$ 53,014	\$ 180,091
Payments to suppliers	(44,476)	(49,788)	(94,264)
Net cash provided by operating activities	82,601	3,226	85,827
Cash flows from noncapital financing activities:			
Interfund activity	4,000	1,000	5,000
Cash flows from capital and related financing activities:			
Principal paid on bond debt	(76,000)	-	(76,000)
Interest paid on bond debt	(26,794)	-	(26,794)
Net cash used by capital and related financing activities	(102,794)	-	(102,794)
Cash flows from investing activities:			
Investment income	17,689	665	18,354
Net increase in cash and cash equivalents	1,496	4,891	6,387
Cash and cash equivalents, beginning of year	297,264	48,185	345,449
Cash and cash equivalents, end of year	\$ 298,760	\$ 53,076	\$ 351,836
Reconciliation of net loss to net cash provided by operating activities:			
Operating loss for the year	\$ (815)	\$ (46,833)	\$ (47,648)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation expense	73,078	48,953	122,031
Amortization of bond costs	2,360	-	2,360
Change in assets and liabilities:			
Accounts receivable	7,688	994	8,682
Accounts payable	290	112	402
Net cash provided by operating activities	\$ 82,601	\$ 3,226	\$ 85,827

The notes to financial statements are an integral part of this statement.

**Fiduciary Funds
Statement of Net Assets
March 31, 2007**

	Escrow Account
Assets	
Cash and cash equivalents	<u>\$ 909</u>
Liabilities	
Accounts payable	<u>\$ 909</u>

The notes to financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Metamora, Michigan conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the Village and its component units. In evaluating the Village as a reporting entity, management has addressed all potential component units (traditionally separate reporting entities) for which the Village may be financially accountable and, as such, should be included within the Village's financial statements. The Village (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial burden on the Village. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The component unit discussed below is included in the Village's reporting entity because of its operational or financial relationship with the Village.

Blended Component Unit

The financial statements of the following component unit has been "blended" with those of the Village because the component unit provides services entirely to the Village.

Downtown Development Authority – The members of the governing board of the Downtown Development Authority (DDA) are appointed by the Village Council. The budgets and expenditures of the DDA must be approved by the Village Council. The Village also has the ability to significantly influence operations of the DDA. Complete separate financial statements of the DDA are not prepared.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accounts of the Village are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business type activities.

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The Village's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The Village first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the Village's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.). The Village does not allocate indirect costs. In creating the government-wide financial statements the Village has eliminated interfund transactions.

The government-wide focus is on the sustainability of the Village as an entity and the change in the Village's net assets resulting from current year activities.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Fiduciary funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The fiduciary funds are accounted for on a spending or economic resources measurement focus and the accrual basis of accounting as are the proprietary funds.

The Village reports the following major governmental funds:

The *General fund* is the primary operating fund of the Village. It is used to account for all financial resources, except for those required to be accounted for in another fund.

The *Major Street fund* is used to account for the maintenance and construction of the Village's major street system.

The *Local Street fund* is used to account for the maintenance and construction of the Village's local street system.

The *Downtown Development Authority* assists the Village in financing improvements to the downtown area.

The Village reports the following major enterprise funds:

The *Sewer fund* is used to account for the revenues and expenses for the operation of the sewer system.

The *Water fund* is used to account for the revenues and expenses for the operation of the water system.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Assets, Liabilities and Equity

Deposits and Investments

Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. For purposes of the statement of cash flows, the Village considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased and all local government investment pools to be cash equivalents.

Interfund Receivables and Payables

Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Inventories and Prepaid Items

Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The Village defines capital assets as assets with an initial individual cost in excess of \$1,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are capitalized if acquired after April 1, 2004. Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 40 years
Machinery and equipment	7 - 10 years
Office equipment	5 years
Water and sewer distribution systems	10 - 50 years
Infrastructure	20 years

Long-term Obligations

In the government-wide financial statements and proprietary fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business type activities, or proprietary fund statement of net assets.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Eliminations and Reclassifications

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

Property Taxes

Village property taxes become an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before September 14.

The 2006 taxable valuation of the Village totaled \$22,571,107, on which ad valorem taxes levied consisted of 10.4711 mills for the Village's operating purposes.

The delinquent real property taxes of the Village are purchased by Lapeer County. The delinquent real property taxes are received before year end.

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information

The Village follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Village Clerk submits to the Village Council a proposed operating budget by fund for each year. The operating budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted by adoption of the Village Council.
4. Any revision that alters the total expenditures of any fund must be approved by the Village Council.
5. Formal budgetary integration is employed as a management control device during the year for all funds.
6. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General fund and major Special Revenue funds budgets as originally adopted and amended by the Village Council is included in the required supplementary information.
7. All annual appropriations lapse at fiscal year end.

3. DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village Council has designated one bank for the deposit of Village funds. The investment policy adopted by the Council in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Village's deposits and investment policy are in accordance with statutory authority.

The Village's deposits and investments at March 31, 2007 are included in the statement of net assets under the following categories:

	Governmental Activities	Business Type Activities	Total
Cash and cash equivalents	\$ 1,600,749	\$ 159,369	\$ 1,760,118
Restricted cash and cash equivalents	-	192,467	192,467
	<u>\$ 1,600,749</u>	<u>\$ 351,836</u>	<u>\$ 1,952,585</u>

Deposits and Investments

The Village's cash accounts are maintained at one bank using accounts which "sweep" excess cash balances into Governmental Investment Funds. At March 31, 2007, the Village's deposits and investment balances were as follows:

	Primary Government	Fiduciary Fund
Deposits	\$ 109,585	\$ 909
Investments	1,843,000	-
	<u>\$ 1,952,585</u>	<u>\$ 909</u>

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Village's deposits may not be returned. State law does not require and the Village does not have a policy for deposit custodial credit risk. As of year end, all of the Village's bank balance of \$111,302 was insured.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Village has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Primary government - Sweep	\$1,843,000	Not rated	N/A

4. RESTRICTED ASSETS AND BOND RESERVES

Sewer Revenue Bond

The Sewer revenue bonds are to be repaid with revenues generated by user connection fees plus debt service charges of \$21 per customer per month. The system includes approximately 220 billable units. The Village is committed to maintaining the following reserves:

Bond reserve – quarterly deposits of \$1,875 are due until the balance is \$30,000.

Repair fund – quarterly deposits of \$350 are due until the balance is \$9,800.

Although the Village has not maintained separate bank balances for each of these funds, it has deposited all connection fees collected and debt service charges in a separate bond retirement account which has a balance of \$192,467 at March 31, 2007. The cash funds and accounts receivable balance have been included in the Sewer funds statement of net assets as restricted for debt service.

5. CAPITAL ASSETS

Capital assets activity for the year ended March 31, 2007 was as follows:

	Balance April 1, 2006	Additions	Retirements	Balance March 31, 2007
Governmental activities:				
Nondepreciable capital assets:				
Land	\$ 46,475	\$ -	\$ -	\$ 46,475
Construction in progress-infrastructure	36,190	5,005	\$ -	41,195
Total nondepreciable capital assets	82,665	5,005	-	87,670
Depreciable capital assets:				
Buildings and improvements	63,436	69,590	-	133,026
Machinery and equipment	35,092	-	\$ -	35,092
Office equipment	2,705	-	-	2,705
Infrastructure	171,905	-	-	171,905
Total depreciable capital assets	273,138	69,590	\$ -	342,728
Less accumulated depreciation	78,664	13,875	-	92,539
Depreciable capital assets, net	194,474	55,715	-	250,189
Capital assets, net	<u>\$ 277,139</u>	<u>\$ 60,720</u>	<u>\$ -</u>	<u>\$ 337,859</u>
Business type activities:				
Nondepreciable capital assets:				
Sewer land	\$ 115,744	\$ -	\$ -	\$ 115,744
Water land	6,515	-	-	6,515
Total nondepreciable capital assets	122,259	-	-	122,259
Depreciable capital assets:				
Sewer system	2,923,100	-	-	2,923,100
Water system	1,645,471	-	-	1,645,471
Total depreciable capital assets	4,568,571	-	-	4,568,571
Less accumulated depreciation	1,013,510	122,031	-	1,135,541
Depreciable capital assets, net	3,555,061	(122,031)	-	3,433,030
Capital assets, net	<u>\$ 3,677,320</u>	<u>\$ (122,031)</u>	<u>\$ -</u>	<u>\$ 3,555,289</u>

Depreciation expense was charged to functions as follows:

Governmental activities

General government	\$ 3,714
Public works	10,161
Total governmental activities	<u>\$ 13,875</u>

Business type activities

Sewer	\$ 73,078
Water	48,953
Total business type activities	<u>\$ 122,031</u>

6. LONG-TERM LIABILITIES

At March 31, 2007 long-term debt consists of the following obligation:

	Balance April 1, 2006	Additions	Retirements	Balance March 31, 2007	Due Within One Year
Business Type activities					
1997 sewer revenue bonds, due annually in amounts ranging from \$16,000 to \$38,000, plus interest due semiannually at 5%	<u>\$ 561,000</u>	<u>\$ -</u>	<u>\$ 76,000</u>	<u>\$ 485,000</u>	<u>\$ 17,000</u>

The annual aggregate maturities for the obligations are as follows:

Fiscal Year	Principal	Interest	Total
2008	17,000	23,825	40,825
2009	18,000	22,950	40,950
2010	19,000	22,025	41,025
2011	20,000	21,050	41,050
2012-2016	115,000	88,875	203,875
2017-2021	140,000	57,000	197,000
2022-2026	<u>156,000</u>	<u>18,100</u>	<u>174,100</u>
	<u>\$ 485,000</u>	<u>\$ 253,825</u>	<u>\$ 738,825</u>

7. RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the Village's governmental and business type activities in the aggregate are as follows:

	Governmental Activities	Business Type Activities
Receivables		
Accounts	\$ -	\$ 18,751
Intergovernmental	25,476	-
Amounts due from utility connection fees	-	57,019
Total receivables	<u>\$ 25,476</u>	<u>\$ 75,770</u>
Payables and accrued expenses		
Accounts	\$ 10,975	\$ 4,733
Accrued taxes	2,041	-
Interest	-	10,100
Total payables and accrued expenses	<u>\$ 13,016</u>	<u>\$ 14,833</u>

The accounts receivable are reported net of allowances for uncollectible accounts of \$2,000.

The amounts due for utility connection fees are due over a 40 year period and bear interest at 6.25% annually. The annual principal due under these agreements approximates \$3,000.

8. INTERFUND TRANSACTIONS

The composition of interfund receivable and payable balances at March 31, 2007 is as follows:

Receivable fund	Payable fund	Amount
General fund	Downtown Development Authority	\$ 1,552
General fund	Sewer fund	8,000
General fund	Water fund	2,000
		<u>\$ 11,552</u>

These balances resulted from a time lag between the dates that (1) interfund goods and services are provided, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Advance

Prior to 2004, the Metamora DDA advanced funds to the Village's Water fund for the construction of a water well. The loan is being paid as funds are collected from water connection fees and is non-interest bearing. As of March 31, 2007, the DDA has advanced \$104,536 to the Water fund.

HYZER, HILL, KUZAK & CO., P.C.

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Bruce Hill
Donald Kuzak
Michael Doerr

MANAGEMENT LETTER

August 6, 2007

Village Council
Metamora, Michigan

We have recently completed our audit of the basic financial statements of the Village of Metamora as of and for the year ended March 31, 2007. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving managements' control and the operational efficiency of the Village's recordkeeping system or compliance with laws and regulations. These observations are a result of our evaluation of internal financial and compliance controls for audit purposes and our discussions with management.

Customer remittances

Customer remittances (checks) should be endorsed by stamp immediately upon receipt. At present, these checks are being filed without endorsement.

Authorized signers

The General, Water, Sewer, Sewer Debt and Street Fund checking accounts only allow one person (the Village Treasurer) as an authorized check signer. The Village Council should consider adding the Village President as an additional authorized signer so that, in the absence of the Treasurer, bills can be paid.

Street funds

The Village does not charge the Street Funds for DPW labor expended on Street projects. Instead, the General Fund absorbs the cost without reimbursement. The Village office could calculate the amount of DPW time on a quarterly or annual basis and the Street Funds can be changed accordingly.

Water fund

The Village's Water Fund has realized income, excluding depreciation, of only \$2,785 in 2007 compared to \$11,575 in 2006. Although these results are positive, they do not provide for the accumulation of cash reserves for system replacement or major repairs. The Village Council may want to review its water rates so that occasional major repairs can be funded with system cash reserves.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

These conditions were considered in determining the nature, timing and extent of the audit tests applied in our audit of the March 31, 2007 financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the information and use of management and the Village Council of the Village of Metamora, Michigan and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss these conditions with you and to provide assistance in implementation of improvements.

Very truly yours,

A handwritten signature in black ink that reads "Hyzer, Hill, Kuzak & Co P.C." The signature is written in a cursive, flowing style.

Hyzer, Hill, Kuzak & Co., P. C.